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June 1, 2009

TO: Each Supervisor

FROM: Jonathan E. Fielding, M.D., M.P.H. *Jeff Fielding*
Director and Health Officer

SUBJECT: **TARZANA TREATMENT CENTER**

This is to inform you that we have been contacted by the Los Angeles Times regarding executive compensation and ownership stakes in commercial properties of some executives of Tarzana Treatment Center which have been disclosed in Federal tax filings by the agency. The reporter did not indicate if or when an article regarding this inquiry might be published. The Los Angeles Times also requested information on current and past Alcohol and Drug Program Administration contracts with that organization as well as from several other contracted agencies.

In addition, we have received the attached communication from Tarzana regarding the Times' inquiry. Tarzana indicates in the attached that it "allocates a maximum of \$190,000 of any individual's annual salary to public contracts". Consistent with our efforts to assure the effective use of public funds we are reviewing our contracts with Tarzana to determine the extent to which the overhead we allowed contributed to executive compensation.

In addition, to assure that our limited resources are being used in the most cost-effective manner to the highest need population we are proceeding with several planned activities, including:

- Review of program procurement activities with particular emphasis on releasing a Request for Proposals (RFP) for DPSS CalWORK contracts. This RFP is slated for release in Fall 2009.
- Examining the current rate setting methodology for specific drug and alcohol treatment services and considering any changes to ensure that we are contracting for cost-effective services.
- Determining whether other types of substance abuse contracts, such as prevention services, can be fast-tracked through the RFP process.

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We will provide you with periodic updates on these activities. In the meantime if you have any questions or need additional information please let me or Jonathan Freedman know.

JEF:al

Attachment

c: Chief Executive Officer
Acting County Counsel
Executive Officer, Board of Supervisors

From: Albert Senella <asenella@Tarzanatc.org>
To: John Viernes <jviernes@ph.lacounty.gov>, 'Jonathan Fielding' <jfielding@...
Date: 5/28/09 4:23 PM
Subject: TTC communication

Within the next few days, we expect the Los Angeles Times will publish a story about Tarzana Treatment Center and possibly other drug and alcohol treatment programs in the Los Angeles area. The Times' reporter, Alan Zarembo, has spent months investigating TTC and other programs and has interviewed a variety of providers, academics and funders in the field. He has also interviewed industry critics.

Generally, the reporter's questions have been about our funding, outcomes, compensation, governance and contracting practices.

Therefore, I believe it is important that you have some of the same information we gave the reporter because I do not know if he will chose to include this information in his story.

At Tarzana Treatment Center, we consider ourselves an "entrepreneurial non-profit." That means:

- * We constantly look for ways to meet the needs of our patients, from addressing their co-occurring conditions, such as mental illness and HIV/AIDS, to providing primary care, housing and a full continuum of care, with a professional multidisciplinary staff, throughout all programs we offer. I've attached a background piece that describes our history of innovation and leadership.

- * We place a high priority on financial stability with appropriate cash reserves. This ensures we have adequate cash flow to provide services while investing in new programs and providing support and enhancements to existing services to help more people.

- * In addition to our government-funded programs, through our non-profit organization, we provide significant services to the private sector through private self-pay and commercial contracts with most health plans and many physician practices. This allows us to generate additional revenue, which we re-invest in program/contract enhancements and services that are not fully reimbursed by public contract. Further, we are continuously investing in our vision and mission.

- * We pay our staff competitively. As one of the largest providers of al and drug treatment programs in California, we owe it to our patients to provide quality care delivered by top-notch professionals. We regularly review industry standards for staff at levels of our org, and we aim to be the employer-of-choice in our industry.

Federal Guidelines put a cap of about \$196,700 on any person's salary that is a direct cost on a federal grant (as program staff). There is no such limit for personnel charged under indirect costs, such as administrative and overhead expenses. Despite that, TTC allocates a maximum of \$190,000 of any individual's annual salary to public contracts - weather it is a direct or indirect cost. Any salary above \$190,000 - including those of our CEO and COO - is paid thru non-public funds.

- * As a non-profit and recipient of public funds, we recognize our responsibility to operate efficiently and effectively. We are regularly reviewed and audited by our funders and consistently receive positive

reports.

- * We believe in transparency. That is why we regularly report to all appropriate Governmental agencies any transactions involving our executive staff and Board members such as the fact that some of our Board members own fractional interest in properties we lease and that our CEO also serves as general counsel.

- * When TTC was founded, it did not have the financial resources to purchase the facilities it needed to operate, so it leased its first bldg. Over the years, the Board decided it would invest TTC's resources in programs rather than in real estate. At the same time, it's critical that we not be at the mercy of the whim of landlords. So, in several cases, our Board members have purchased partial ownership in facilities that we lease. It is a strategy that has ensured we continue to expand our services while retaining sufficient cash reserves.

- * Our CEO, Scott Taylor, was a practicing attorney when he founded TTC in 1972 and he still is today. As CEO, Scott is responsible for strategic planning, financial planning, real estate mgmt and development and overall leadership. In addition, he serves as TTC general counsel through his law firm, reviewing contracts, leases and other legal docs, and providing general counsel and personnel issuers.

- * TTC retains separate outside corporate counsel to advise the Board governance and management as necessary to help ensure full compliance with all state and federal regulations, in particular with respect to the relationships between any Board members, management and TTC, which are also independently approved by unrelated Board members.

Our Board is comprised of people who bring a set of business, financial, real estate and other skills, along with a passion for TTC's mission. Like many organizations, we sometimes recruit Board members who we know, have worked with and trust to fulfill their fiduciary responsibilities and move our mission forward.

Beyond providing quality and innovative services, TTC recognizes the critical role the government plays in providing funding and removing barriers to services. Therefore, our executive team has worked closely with other providers, state and local associations, elected officials and the community to advocate for expanded services, access to care, higher standards, increased accountability and evidence-based practices.

I am very proud of Tarzana Treatment Center's 37-year history of providing drug and alcohol treatment services and honored to play a leadership role in the field, by serving as president and chair of the California Association of Alcohol and Drug Program Executives and on many other advisory groups. At this time, when Proposition 36 and CalWORKs are in jeopardy, it is my hope that the reporter will address something that we all know: There is a tremendous need for alcohol and drug treatment programs and, in California, there is a significant number of talented, dedicated people who are working diligently to meet that need.